

Welcome to MicroCap Gems, a weekly email newsletter dedicated to helping you find new stock ideas that are often missed by typical investment news sources. Each issue details an individual stock with unique potential and provides in-depth, independent analysis from the MicroCap Gems analyst staff. To ensure you receive this e-mail in the future, please add support@mcgnewsletter1.messages1.com to your list of approved senders.



June 16, 2010 Volume 3, Issue 60

THIS WEEK'S GEM



NORSAT INTERNATIONAL INC.
(OTCBB: NSATF and TSX: NII) \$0.64

OUTLOOK

Norsat International is a British Columbia, Canada based provider of broadband communication solutions.

The Company designs, develops and markets satellite ground equipment. The ground equipment enables high speed transmission of data, audio and video over commercial and military satellites.

We find Norsat attractive due to its strong and consistent income and revenue growth, its expansion into new vertical markets, its strong balance sheet and lack of debt as well as the growing demand for broadband connectivity.

Furthermore, from a technical analysis view point, we believe the stock currently may be attempting to build support just below the \$0.60 area. Therefore, should we be correct in our analysis and should this possible support area continue to hold, levels near this possible support area may offer long term investors an attractive entry opportunity.

Many companies competing in the broadband industry focus on direct to home broadcasting. However, Norsat's focal point is on ground equipment that is central to the transmission and reception of content for commercial and military applications.

The Company's products fall into several segments including Satellite Systems, Microwave Products, Wireless Networks and Maritime Products. The two primary segments Norsat operates include its Satellite Systems and Microwave Products.

Although the characteristics and dynamics of these two units are distinctive, they both provide core elements of the satellite ground infrastructure.

Norsat's Portable satellite systems provide rapidly deployable broadband connectivity over satellite where traditional communications infrastructure is insufficient, unreliable, damaged or non-existent. The portable satellite systems are sold to customers in the defense, emergency services, and broadcasters markets.

For the fiscal year ended December 31, 2009 the Company's Satellite Systems

segment accounted for approximately 62% of the Company's consolidated revenues.

It should be noted that this segment has seen very appealing growth over the past year. During fiscal 2009, the Company saw sales of its portable satellite systems increase by 40%.

Furthermore, the portable satellite terminal market is estimated at approximately \$300 million and growing.

The Company's Microwave components enable the transmission, reception and amplification of signals to and from satellites.

The primary markets for this segment are resellers, system integrators, antenna manufacturers and service providers located in North America, Europe and Asia.

For the fiscal year ended December 31, 2009, the Company's Microwave Products segment accounted for approximately 36% of the Company's total revenues.

Additionally, the Company plans on improving its microwave business by introducing more products in 2010.

This week the Company announced it introduced two new products from its microwave division at the 21st International Communications and Information Technology Exhibition & Conference.

Furthermore, it should be noted that the segment offers stable revenue for Norsat with the Company estimating it owns approximately 85% of the \$13 - \$15 million annual market in which its microwave components compete.

What's more, in 2009, the Company launched two new businesses in Wireless Networks and Maritime Satellite Communications.

Norsat's Wireless Networks segment develops, markets and deploys wireless communications systems. The systems solve connectivity needs and challenges covering an area larger than Wi-Fi solutions.

The Wireless Networks segment's entry into this quickly growing market may offer Norsat some large growth potential over the long term.

The WiMax/BWA (broadband wireless access) market is estimated to have added as many as 10 million subscribers in 2009 and to be adding as many as 50 million per year by 2014. The majority of this growth is anticipated to be internationally.

Norsat's Maritime systems provide broadband connectivity over satellite for the marine environment.

The maritime information systems and broadband communications at sea should offer a recurring revenue stream for the Company.

We anticipate that the recent launch into these two vertical markets will prove beneficial to both the Company and its shareholders in terms of both growth and diversification.

Most of Norsat's products are sold through resellers and its own direct sales force.

For the fiscal year ended December 31, 2009, the Company reported revenues of \$21.164 million, an increase of over 17% from revenues of \$18.056 million during the twelve months ended December 31, 2008. Net income increased to \$4.632 million for fiscal 2009 compared to net income of \$2.199 million during 2008.

It should be noted that during 2009 there was a tax benefit \$1.646 million. However, excluding the 2009 tax benefit, income from operations increased by nearly 36% compared to income from operations during the comparable twelve months.

That being said, much of the Company's improved performance during 2009 was due to a 40% increase in sales of its portable satellite systems.

Also worth mentioning is that during fiscal 2009 the Company Repurchased 759,500 of its company shares at an average price of \$0.68.

However, it should be mentioned that gross margins have been trending slightly lower due to the pricing pressures to compete. Gross margins fell from 52% in 2007 to 49.7% in 2009.

Still, management expects margins to remain fairly stable at around the 50% level.

For the three months ended March 31, 2010, the Company reported revenues of \$4.886 million compared to revenues of \$4.994 for the first quarter of 2009.

Net income for the first quarter was \$512,390 compared to net income of \$828,736 for the comparable three months of 2009.

Although revenues declined slightly during the three months, it should be mentioned that the Microwave Products division grew by 26.2% to \$1.9 million during the first quarter.

During the quarter ended March 31, 2010, the Company reported cash and equivalents of \$2.838 million and working capital of \$12.583 million. It should be mentioned that \$6.433 million of accounts receivables and \$5.143 million of inventories make up the bulk of the short term assets in this working capital equation.

Furthermore, as of March 31, 2010 the Company had no long term debt.

We believe the Company's working capital, cash on hand, income from operations and available borrowing capacity is sufficient to cover any funding needed for operations in the foreseeable future.

However, readers should be warned that failure by the Company to successfully obtain additional future funding if and when needed, may jeopardize its ability to continue its business and operations.

Readers should also be cautioned of possible liquidity issues with the stock. There are only 53.493 million shares outstanding. Additionally, volume averages only approximately 27,600 shares per day. Keeping this in mind, when trading such thinly traded stocks, we strongly recommend the use of limit orders and warn readers to expect added volatility.

Additionally, the reader should be aware that the Company is listed on the OTC Bulletin Board quotation system and not on any of the major exchanges. The OTC BB system and the applicability of Penny Stock Rules could affect liquidity and/or market price.

It should also be noted that Norsat depends on revenues from a small number of large customers. The loss of business from any one of its primary customers could have a material adverse effect on the Company.

Furthermore, investors should be aware of possible technical obsolescence as more advanced products are developed that may compete against Norsat's products.

Finally, readers should be cautioned that the Company faces strong competition from companies with larger customer basis, greater name recognition, and significantly more financial, technical, and marketing resources.

Still, we find the Company's strong growth and its entry into new vertical markets within a quickly growing industry very appealing. Additionally, the Company's strong balance sheet should be advantageous as the Company meets growth challenges and attempts to maintain and manage that growth.

We believe Norsat International Inc. may offer high risk tolerant long term investors an attractive growth play in the micro-cap arena.

For more information on Norsat International Inc., please visit the Company web site at www.norsat.com. Additionally, information can be obtained from the Company's investor relations representative at (212) 370-4500 ext. 25 or through email at adam@wolfeaxelrod.com.

Please see Summary Data and Income Statement below.

Summary Data

52 wk high	\$0.99
52 wk low	\$0.55
One year return	-5%
Average Daily Volume	27,600
Shares Outstanding (mil)	53.493
Market Capitalization (\$mil)	34.2
Insider Ownership	4.76%
Annual Cash Dividend	\$0.00
Dividend Yield (%)	0.0



Chart courtesy of StockCharts.com

Risk level	High
Industry	Communications Equipment

INCOME STATEMENT

(Dollars In thousands, except per share amounts)

Full Year Ended December 31	2009	2008
Revenues	\$21,164	\$18,056
Cost of sales (Excluding amortization of \$330,163)	10,650	8,787
Selling, general and administrative expenses	6,065	6,253
Product Development	774	799
Amortization	330	346
Other (Income) expense	357	(330)
Income before income taxes	2,986	2,199
Future income tax recovery	1,646	-
Net Income	4,632	2,199
Currency translation adjustment	628	(1,536)
Comprehensive Income	5,261	663
Basic earnings per share	\$0.08	\$0.04
Diluted earnings per share	\$0.08	\$0.04

AVERAGE ANALYST ESTIMATE

Full Year Ended December 31	2010	2011
Fiscal Yr	NA	NA

^Single analyst Estimate.

GEM PORTFOLIO



COMPANY NAME	SYMBOL	INDUSTRY	DATE RECOMMENDED	PRICE ADDED	CURRENT PRICE (6/14/10 Close)	RETURN PERCENTAGE
Air T Inc.	AIRT	Air Delivery & Freight Services	3/19/2008	\$8.96	\$11.925	33.1%*
Computer Task Group, Inc.	CTGX	Information Technology Services	6/25/2008	\$5.018	\$8.20	63.4%
GSI Technology Inc.	GSIT	Semiconductor - Broad Line	10/29/2008	\$3.30	\$6.33	91.8%
HealthStream, Inc.	HSTM	Internet Information Providers	7/15/2009	\$2.71	\$4.60	69.7%
Jewett-Cameron Trading Company Ltd.	JCTCF	Lumber, Wood Production	7/23/2008	\$6.75	\$7.1784	6.4%
NAPCO Security Technologies, Inc.	NSSC	Security & Protection Services	12/3/2008	\$1.41	\$1.77	25.5%
Norsat International, Inc.	NSATF	Communications Equipment	4/7/2010	\$0.77	\$0.64	-16.9%
Sapiens International Corp. N.V.	SPNS	Technical & System Software	11/11/2009	\$1.55	\$3.05	96.8%
Servotronics, Inc.	SVT	Industrial Electrical Equipment	1/21/2010	\$9.41	\$9.30	-1.2%*

Chart courtesy of StockCharts.com

*Excludes dividends

**Split adjusted price.

The Holding Period Return for the MicroCap Gems portfolio year to date (12/31/2009 - 5/31/2010) is 20.89%.***

The Holding Period Return for the MicroCap Gems portfolio since inception (5/5/2005 - 5/31/2010) is 12.28%.***

The Russell Microcap Index year to date return (12/31/2009 - 5/31/2010) is 9.25%.

The Russell Microcap Index cumulative return for the period 5/5/2005 - 5/31/2010 is 3.33%.

***The portfolio is assumed to be equal weighted and is re-balanced every time there is an addition or deletion. Any dividends paid are incorporated into the holding period return. Data presented reflects past performance, which is no guarantee of future results. Due to market volatility, current performance may be higher or lower than the performance shown. Investors may incur a loss despite previous gains. Results will vary with economic and market conditions.

Additions/Deletions

There are no additions or deletions to the MicroCap Gem portfolio.

Disclaimer

The MicroCap Gems newsletter is solely for information purposes only and the statements and opinions in this report should not be construed as an offer or solicitation to purchase or sell any security. The information is created without regard to any investor's individual needs. If the reader should purchase or sell any security they do so at their own risk. MicroCap Gems LLC and its employees accept no liability for any losses or for consequential or incidental damages arising from any investor's reliance on or use of this report, even if the information is untimely, incomplete or incorrect. The reader should be aware the information provided by the editor may not be accurate, timely or complete. The information expressed in this letter is based upon the interpretation of available data, which the editor considers reliable, but the editor does not represent that the data is accurate or complete. The majority of statements and expressions are the sole opinions of the editor and are subject to change without notice. The data and information presented is provided for informational purposes only, and is not offered as a basis for investing in securities. Users of this letter should conduct their own independent investigation before making any investment or business decisions with respect to securities covered by the editor. MicroCap Gems LLC and its employees do not accept money, stock, services, or in-kind advertising in exchange for coverage of particular companies, securities or markets nor do any MicroCap Gems LLC employees trade in any of the companies covered. Past performance is no guarantee of future results. Investors may incur a loss despite a past history of gains. Any companies mentioned in this report may, or may not, be experiencing liquidity issues and may require additional capital to continue operations.

MicroCap Gems, LLC.
2020 North California Ave.
Suite 7 Number 125
Chicago, IL 60639
support@microcapgems.com